

STATE OF VERMONT
DEPARTMENT OF TAXES



BIENNIAL REPORT
1997-1998

MISSION STATEMENT

The mission of the Department of Taxes is to collect the proper amount of tax revenue in a timely and efficient manner to pay for the goods and services people receive from State government; administer benefit programs through the most efficient means possible; and serve local governments by striving to improve local property tax assessment practices; and to assist and service taxpayers, legislators and all others by any means possible.

January 15, 1999

General Assembly of the State of Vermont
The State House
Montpelier, VT 05633-5301

Members of the General Assembly:

I am pleased to present the Biennial Report of the Commissioner of Taxes for 1997 and 1998, as required by 32 V.S.A. § 3101(b).

The Department is continuing to work on the development of the new Vermont Integrated Revenue Collection System (VIRCS). In October 1998 the first three taxes (withholding, sales and use, and meals and rooms) were converted into the new computer environment. Other taxes are scheduled for conversion during 1999.

In 1998, a small group was formed to conduct criminal tax investigations. This group actively pursues income tax non-filers and businesses who collect trust taxes and fail to file and/or remit taxes to the State. The first prosecution resulted in \$10,000 in restitution and court-imposed fines of \$2,500. We expect a number of prosecutions in the next biennium.

In this biennium, the Division of Property Valuation and Review (PVR) moved from the Waterbury Office Complex to Montpelier. The Mapping Program remains in Waterbury. In order to centralize all taxes related to real estate in one part of the Department, the real estate withholding, property transfer and land gains taxes were transferred from the Taxpayer Services Division to PVR.

The Department has instituted a web site (www.state.vt.us/tax). The web site includes formal rulings, technical bulletins and new regulations. The site also includes downloadable forms, property transfer tax data, school property tax payment statistics and information about the orthophotography program. There are links to the Act 60 web site, Legislative Council, Internal Revenue Service, Vermont Home Page and the Federation of Tax Administrators.

As we continue to strive to collect tax revenue in a timely and efficient manner, the Department appreciates the support it receives from the administrative and legislative branches of government.

Respectfully submitted,

Sean P. Campbell
Commissioner of Taxes

TABLE OF CONTENTS

Commissioner's Letter	i
Organization Chart.....	1
Department Highlights	
Administration and Operations	2
Compliance Division	2
Information Systems Division	4
Property Valuation and Review	5
Taxpayer Services.....	8
Active Trust Tax Accounts	11
Returns Examined	11
1997 Tax Legislation	12
1998 Tax Legislation	18
Tax Litigation	30
1997 Formal Rulings	35
1998 Formal Rulings	40
Technical Bulletins	42
Description of FY1998 Taxes.....	46
Description of Tax Credits and Programs	51
Fiscal Year Comparison of Receipts.....	54
What Each 1¢ / 1% Raises in Certain Taxes.....	55
1996 Personal Income Tax Return Statistics	
Income Class, Marital Status, Credits	56
Income, Tax, Tax Offsets (Credits)	57
Homeowner Renter Rebate by Income Class	58
Homestead Property Tax Distribution	59
1997 Personal Income Tax Return Statistics	
Income Class, Marital Status, Credits	60
Income, Tax, Tax Offsets (Credits)	61
Homeowner Renter Rebate by Income Class	62
Homestead Property Tax Distribution	63
Sales and Use Tax Statistics	64
Meals and Rooms Statistics	65
Tax Receipts Fiscal Year Historical Summary.....	66
1998 School Property Tax Reduction Payment Summary	84
Historical Summary of Vermont Property Tax Rebate	89
Commissioners of Taxes	90
Key Personnel	91

ADMINISTRATION and OPERATIONS DIVISION

This Division includes individuals responsible for overall Department leadership, policy-making, budget and personnel functions, plus revenue accounting and returns processing.

The Administration section includes the Commissioner, Deputy Commissioner, General Counsel, Policy Analysts, Business Manager and their immediate staff; a total of 18 permanent, full-time employees plus 1 tax-season temporary. This section has overall management control of the entire Department. The Administrative Division is responsible for all tax policy inquiries from the Governor and Legislature, issues rulings and technical bulletins to implement tax legislation, conducts tax appeal hearings, and represents the Department in any civil or criminal litigation. This Division also provides budget preparation and management services, personnel administration and payroll processing, procurement of all goods and services (including contract administration) and inventory control for all office supplies, furniture, equipment and tax forms.

In response to Act 60 demands placed on Property Valuation and Review (PVR), the Commissioner transferred the Operations section of PVR to the Business Manager's staff in August 1997.

The Operations section consists of 16 permanent, full-time employees and 15 tax-season temporaries. This Division is responsible for all revenue accounting and returns processing needs of the Department. These include: mail/stockroom operations; receipt, opening and routing of all incoming mail; document validation and control; data capture via traditional keying or scan/image systems; bank deposits and related cash management functions including electronic funds transfers, FMIS reporting, and bank account/general ledger reconciliations. It also includes processing all outgoing mail including preparation and distribution of tax forms, refund checks, delinquency notices/bills and any one-time special mailings.

COMPLIANCE DIVISION

Compliance is the enforcement division of the Department of Taxes. In addition to standard audit selection and collection activity, our goal for the next two years is to begin to effectively use the Department's new computer system as a resource. The data gathering and reporting functions of the new system should allow for better audit selections and less reliance on paper data for collection action.

Audit results for the biennium. During FY1998, 24 audit positions resulted in the processing of 1,476 cases and assessments of \$6.8 million. In FY1997, 22 audit positions resulted in the processing of 1,167 cases and assessments of \$5.6 million. Audit cases include assessments, refunds, "no change" or non-assessed audits, and examinations of refund requests which often result in the reduction of a tax liability.

Audit assessments include all taxes administered by the Department but the predominant tax types examined were: sales and use, meals and rooms and individual income taxes, primarily from non-filers of these taxes.

With the support of the Commissioner of Taxes and the assistance of the Attorney General's office, a small group was formed to conduct criminal tax investigations. The first prosecution resulted in \$10,000 in restitution and court-imposed fines of \$2,500. This group actively pursues income tax non-filers and those businesses who collect trust taxes and fail to file and/or remit these taxes to the State. We expect a number of prosecutions in the next biennium.

Collection results for the biennium. Approximately 14 full-time positions were devoted to the collection of delinquent taxes, including two field collectors who meet with taxpayers at their place of business. The Compliance Division maintains four half-time positions to conveniently contact taxpayers with income tax bills during the evening hours of 4:00 to 8:00 p.m.

The total amount of tax accounts receivable has for the last several years remained approximately the same at \$61 million. Delinquent taxes (which include penalties and fees) collected were \$15.8 million in FY1997 and \$14.9 million in FY1998.

The Compliance Division continues to place accounts with private collection agencies, as authorized by 16 V.S.A. § 3109. In FY1997 these agencies collected \$1.6 million and \$1.4 million in FY1998. Compliance will be accepting bids for new contracts in Summer 1999.

The Division offsets income tax refunds for debts owed to other state agencies and the IRS. In each fiscal year, approximately \$1.5 million was sent to agencies participating in the program.

INFORMATION SYSTEMS DIVISION

Information Systems manages automated information processing for the Department of Taxes. The unit is staffed by 15 technical positions and 3 support positions.

During 1997 and 1998, work continued on the development of the new Vermont Integrated Revenue Collection System (VIRCS). The first three taxes, withholding, sales and use, and meals and rooms, were converted into the new environment in October, 1998. Other taxes are scheduled for conversion during 1999.

In addition, a new Electronic Funds Transfer (EFT) system was moved into production as EFT was made mandatory for certain withholding tax filers in July 1997. This system requires certain withholding filers to electronically transfer payments to the Department and eliminates the need to file paper vouchers. This system is more efficient and cost effective for taxpayers and the Department.

Tax years 1997 and 1998 were production periods for the imaging and scanning of tax forms for trust taxes and personal income tax. Much work was done to make this system usable with the existing mainframe application as well as with the new VIRCS environment. Reducing the time needed to transfer data from a paper return to the computer system with a high degree of accuracy is the goal of this effort.

Much of the Division's efforts in 1997-98 have centered on the new statewide property tax initiative commonly referred to as Act 60. To support this effort, the Division has provided aid to towns and municipalities throughout the State necessary to acquire and install hardware and software that will assist towns in complying with the mandates of Act 60. As each town develops the ability to communicate electronically, it is added to an e-mail environment, called a list service, which allows the town to communicate both with Department personnel and with other municipalities regarding issues relating to Act 60. This service has proven popular in encouraging towns to support one another in their effort to meet the legal mandates of Act 60, property valuation and tax billing.

In addition to providing support to the towns, the Division has devoted resources towards the development of a subsystem to produce the 1998 School Property Tax Reduction Payments. The first checks from this system were produced on July 15, 1998, and sent to qualified taxpayers who had filed a School Property Tax Reduction Form (ST-121). More work is being done to make the income tax system compliant with Act 60 and to develop a new statewide property tax system.

With Year 2000 (Y2K) issues arising for the Department as for every other computerized entity in the world, many resources are being used to ensure that all mission-critical systems are Y2K compliant. The new VIRCS system is compliant and the Division's primary goal is to move the Department's tax systems into that environment as quickly as possible.

As we go forward into 1999 and 2000, the resources of the Division will be geared toward the development and implementation of the various phases of VIRCS. In addition, the Division will be upgrading non-VIRCS systems to Y2K compliance.

PROPERTY VALUATION AND REVIEW

Property Valuation and Review (PVR) provides administrative support for the Vermont's property tax system as well as roles in the development and execution of State property tax policies and the administration of several State property tax related programs. All major functions assigned to the Division involve taxes and programs that are primarily or partially administered by municipal governments, hence PVR works extensively with local governments in the performance of its duties.

Specific programs and functions include conducting an annual equalization study to estimate the fair market value of all taxable property in the State, administration of the use value (current use) program, the State's mapping program, the development and support of assessment and tax administration software (CAPTAP) for use by local governments, quasi-judicial functions associated with property tax appeals, current use and the equalization study, provision of technical assistance and education programs on property tax assessments to local governments, the administration of three real estate related State taxes, the collection and analysis of data on the property tax and the administration of a Payment in Lieu of Taxes (PILOT) program for State owned buildings and land. The Division frequently serves several other functions such as the appraisal of State owned buildings and land and provides staffing for both Executive and Legislative studies and commissions.

Equalization Study. Annually, the Division conducts a study based on sales data that results in estimates of the fair market value of all taxable property in all Vermont school districts. The major product of the study is an estimate of the total fair market value of property that is taxable for school purposes (the equalized education grand list - EEGL). The EEGL is used by the State in determining State Education and Local Share property tax liabilities for all Vermont school districts.

Current Use. The Current Use (Use Value Appraisal) program allows enrolled property owners with eligible land and buildings to have their property taxes assessed on the productive value of their property, as opposed to its fair market value (which is the legal standard for assessment of all other real property). Enrolled owners agree to keep this property in productive agriculture and forest use. Owners pay property tax based on separate agriculture and forest productive values that are the same for all enrolled land statewide. Agriculture enrollees can also have qualified farm buildings taxed at 30% of fair market value. All enrolled property is assessed at its respective use value and this reduction in value is reflected in PVR's equalization study which results in lower education property taxes for impacted municipalities. The Division administers a "hold harmless" program that reimburses municipalities for the revenue reduction associated with municipal taxes resulting from this program.

Vermont Mapping Program. The Vermont mapping program produces and distributes orthophotographic maps for all areas of the State. While these maps currently exist for all sections of the State, the maps for many areas are becoming increasingly out-of-date. Beginning in 1994 the mapping program advanced into digital orthophotography and to date has produced orthophotographic maps for about one half of the State. The new maps not only provide more current coverage, but the digital format enhances the accuracy of the product and allows for new uses in concert with evolving technologies. The maps are used by an array of public and private sector organizations to aid their planning and administrative functions.

Computer Assisted Property Tax Administration Program (CAPTAP). To assist local officials and enhance the standardization of assessment practices with the State, PVR has traditionally supported software for determining property values and administering the property tax. The Division has recently begun supporting a set of software programs called CAPTAP-II. While the use of the CAPTAP software is elective, it is the Division's goal to have the majority of municipalities chose this software program. The Department contracts with selected software developers to produce the programs and provides direct support to municipalities for software use. Currently, about 150 Vermont municipalities are using a version of CAPTAP software.

Property Tax Appeals. PVR fulfills several quasi-judicial functions with regard to property taxation. The most important involves appeals of property values as set by municipalities. Attached to PVR are the "State Appraisers" who hear assessment appeals from the local level. The State Appraisers serve as independent hearing officers and set values based on

the evidence resulting from appeals hearings. Typically the State Appraisers hear about 400 appeals annually. Aside from property assessment appeals, the Director of PVR hears appeals related to the Current Use program and the results of the Equalization Study.

Technical Support of the Property Tax System. The Division has eight District Advisors who offer direct support to local assessment officials (listers). The Advisors are regionally located to offer legal and technical advice to listers throughout the State. The expertise available from the Advisors is particularly important as many local officials have a limited background in property assessment and the availability of support both enhances the reliability of assessments and results in greater standardization of assessment practices throughout the State. The Division provides support to local officials through a Department attorney and other centrally located staff with expertise in property assessment and property tax administration.

State Real Estate Taxes (Real Estate Withholding, Property Transfer and Lands Gains). In order to centralize all taxes related to real estate in one part of the Department, the real estate withholding (REW), property transfer and land gains taxes have recently been transferred to the PVR Division. The REW program is not a tax per se, but a 2.5 percent withholding of the consideration involved in a transfer of real property interests by persons and corporations that are not resident to Vermont. The withholding is required to insure that the appropriate amount of taxes on any gain resulting from the transfer is paid when the seller files a Vermont income tax return. The property transfer tax is an amount due from a buyer of Vermont real property and is based on a percentage of the sales price. Typically, the tax rate is 1.25 percent of the total sales price, though for property that is to be used as a principal residence there is a split rate with .5 percent applied to the first \$100,000 and 1.25 percent applied to the remaining value. The land gains tax is imposed on the seller of real property that was held for a relatively short period and then resold. Hence, the purpose of the tax is to mitigate against speculative property purchases by imposing a sliding scale rate that is higher for shorter term holdings against the gain realized through the sale of the property. All three of these taxes have exemptions that reduce or eliminate the tax under special statutorily defined circumstances.

Data collection and analysis. PVR has the statutory role of collecting and disseminating information about property taxation in Vermont. The primary data collections include property assessments from all municipalities (the grand lists and the summary of the grand lists) and property tax rates. Beyond this, the Division annually collects information about utility values, locally elected municipal officials and property sales. The Division makes this information available to local officials, State government and the public

through its Annual Report. The Division also produces and distributes to municipalities a number of forms that are used in the administration of the property tax.

Payment in Lieu of Taxes (PILOT). State-owned property cannot be taxed by municipalities in Vermont. The PILOT program serves to partially compensate municipalities for the potential reduction in tax base due to the presence of State-owned buildings and land. PILOT payments are made annually and are based on a calculation that considers the value of State-owned property in a municipality and calculates the taxes that would result from those properties if they had been on the tax rolls. This calculation is based on the municipal part of the tax rate (as opposed to school taxes).

TAXPAYER SERVICES DIVISION

The mission of the Taxpayer Services Division is to provide taxpayer assistance, disseminate educational materials encouraging voluntary compliance with Vermont tax laws, and examine tax documentation to provide accurate reporting and appropriate liability or refund.

The Division administers and examines 22 taxes, 2 licensing programs, 2 property tax or renter rebate programs, and the homestead school property tax portion of Act 60. The Division also distributes applications for the Lifeline and V-Script programs and determines eligibility for the programs.

The Division devotes much of its activities towards promoting voluntary compliance. The staff responds to taxpayer questions, assists in the completion of tax forms, and aids taxpayers in the resolution of tax issues. Taxpayers may receive assistance by telephoning, writing letters or visiting the office. The Division also provides on-site registration and assistance for businesses at special events such as fairs or craft shows. Taxpayers may come to the Montpelier office for help in completing their tax returns or applications. From January through April (the income tax filing season), taxpayers will find Division staff available to assist taxpayers in completing their returns at the Internal Revenue Service office located in Burlington.

The Division also conducts workshops and seminars for taxpayers, tax preparers and volunteer groups. These programs are often presented in conjunction with the Internal Revenue Service, Small Business

Administration, Community Action, and the State College Extension Service. Division staff trains volunteers to help citizens complete their income tax returns. The Vermont Income Tax Assistance and Tax Counseling for the Elderly (VITA/TCE) programs, sponsored by the Department and IRS, holds training sessions at ten locations throughout the State as well as at Champlain College, UVM, St. Michael's College and Vermont Law School.

The Division licenses businesses required to collect the State's trust fund taxes (sales and use tax, meals and rooms tax, and income tax withholding). Licensing begins with an application submitted by the business. Based on the type of business tax application, Division staff will send the business information relevant to its business and may contact the business to assure all appropriate licenses have been requested. Division staff also respond to telephone calls and letters asking how a trust fund tax applies to the business' particular transactions or situation.

Division staff also examine tax returns filed by taxpayers. The examination insures that taxpayers file returns with accurate and complete information, comply with tax laws and are liable for additional taxes or refunded the appropriate amount.

Investigation of discrepancies between federal data or information from other states and a taxpayer's filing record with the Department may reveal delinquent filers and revised Vermont tax liabilities. Division examiners discovered more than \$2 million in taxes owed the State and corrected income tax refunds saving the State more than \$50,000 each year. Using federal, out of state, and departmental sources, the existing staffing level is able to address approximately 65% of potential discrepancies.

The Division saw many challenges this biennium with the preparation for, and implementation of, the first phase of the new computer system, administration of the new tax structure for C, S and limited liability corporations and partnerships, and the implementation of Act 60 laws. These changes increased the demand for taxpayer assistance. The statewide school property tax program enacted under the Act 60 began with the distribution of applications for the 1998 school property tax reduction payment in the 1997 income tax booklet and the processing of those applications. This program offered property tax assistance not only to those who regularly participated in the property tax rebate program but also to those taxpayers whose incomes were above rebate program eligibility levels. The new program resulted in a high demand for taxpayer assistance (at peak 4,000 telephone calls a week) and the processing of 100,000+ additional applications.

The change in tax laws for C, S and limited liability corporations and partnerships required the Division to develop systems, tax forms, and procedures to handle the new tax structure. The business entities are required to file and pay an annual minimum tax and to make estimated income tax payments on behalf of any nonresidents who are part of the business entities. With the exception of S corporations, other business entities were not required to file returns with Vermont. As with any new tax law, many hours were spent in 1998 with Division staff conducting taxpayer education.

During the biennium, the Division developed three new taxpayer service initiatives:

The Internal Revenue Service selected the Vermont Department of Taxes as the first state in the Northeast region to participate in a project where the Federal Identification Number (FIN) is issued by the Vermont Department of Taxes. The Department and IRS are working together to simplify the number of places a taxpayer must go to begin a business and Vermont taxpayers have been receptive to the concept. The initial project limited the conditions where the Department could issue the FIN. However, the project memorandum of understanding is being renegotiated to allow more opportunities to serve the federal and state taxpayer.

In 1997, the Division began using interactive television to train the VITA/TCE volunteers. Interactive television allows Division staff to train volunteers at ten state-wide locations in a single training session. The time Division staff once used to travel, can now be reallocated to assisting taxpayers in the Montpelier office.

Employers can now remit their Vermont income tax withholding through electronic funds transfer (EFT). The EFT "files" the employer's return with the information submitted for the funds transfer. For the employer, EFT eliminates the requirement to complete a return, write a check and mail the return and check to the Department. For the Department, EFT eliminates mail opening, paper handling, check depositing, data entry and storage processes.

The next biennium will see more procedure and method changes from the implementation of the new trust fund computer processing system.

ACTIVE TRUST TAX ACCOUNTS

	<u>Fiscal Year 1997</u>	<u>Fiscal Year 1998</u>
Sales and Use Tax		
Monthly	7,809	7,598
Quarterly	16,589	16,227
Annual	10,562	10,351
Meals and Rooms Tax		
Monthly	3,366	3,414
Quarterly	1,548	1,418
Withholding		
Monthly	5,170	5,116
Quarterly	20,039	20,062
Weekly	800	800

RETURNS EXAMINED

During the biennium, the Division examined the following volume of tax returns:

	<u>Tax Year 1996</u>	<u>Tax Year 1997</u>
Personal Income Tax	304,222	309,564
Homeowner/Renter Rebate	50,949	56,925
Property Tax Credit Certificates ¹	1,688	
School Property Tax Prebates ²	N/A	111,772

	<u>Fiscal Year 1996</u>	<u>Fiscal Year 1997</u>
Sales and Use Tax	170,626	166,435
Meals and Rooms Tax	46,584	46,640
Withholding Tax	163,796	163,240
Corporate Income Tax ³	32,423	17,520
Business Entity Tax		17,285
Nonresident Estimate		
Payments (Business Entity)	1,200	1,600
Estate and Fiduciary Tax		10,102

¹ Program discontinued in tax year 1997.

² New program for tax year 1998.

³ Includes estimate voucher payments and extensions for corporations.

1997 TAX LEGISLATION

BANK FRANCHISE TAX

The rate is increased from 0.000040 to 0.000096. Act 60. Effective August 1, 1997.

CORPORATE INCOME TAX

The corporate income tax has been increased: on income up to \$10,000 the tax is 7 percent; on income of \$10,001 up to \$25,000 the tax is \$700 plus 8.10 percent of the excess over \$10,000; on income of \$25,001 up to \$250,000 the tax is \$1,915 plus 9.20 percent of the excess over \$25,000; on income of \$250,001 and over the tax is \$22,615 plus 9.75 percent of the excess over \$250,000. Act 60. Effective 1/1/97.

The minimum tax for small farm corporations remains \$75. For all other corporations, it is increased from \$150 to \$250. Act 60. Effective 1/1/97.

GASOLINE TAX

The gasoline tax is increased from 15 to 19 cents per gallon. Act 60. Effective for sales and uses on and after August 1, 1997. The one cent Vermont Petroleum Clean-up Fund Fee remains in effect, in addition to the 19 cents per gallon gasoline tax.

HAZARDOUS WASTE TAX

The exclusive method of appealing a hazardous waste tax assessment is an administrative appeal to the Commissioner similar to other tax appeals. Act 50. Effective 6/26/97.

HOMEOWNER AND RENTER REBATE PROGRAM

The income of a person who lives with an elderly or disabled claimant for the primary purpose of providing attendant care services or homemaker or companionship services which allow the claimant to remain in his or her home or avoid institutionalization may be excluded from "household income" in the calculation of the rebate. This expands the limited exception in prior law. Act 50. Effective for claims filed for property tax rebates for calendar years 1997 and after.

Timely filed under-62 rebate claims for 1997 may be taken as a credit against the income tax in the same manner as over-62 claims. Act 60.

LOCAL OPTION TAXES

A municipality in which the education property tax rate in 1997 was less than \$1.10 per \$100 of equalized educational grand list may enact a 1 percent sales and use tax (excluding tax on telecommunications); a 1 percent meals and alcohol tax; and a 1 percent rooms tax. A municipality opting to impose these taxes must do so no later than July 1, 1998. These taxes may be imposed only during fiscal years 1999, 2000 and 2001. Act 60.

MEALS AND ROOMS TAX

The meals and rooms tax is increased from seven to nine percent. Act 60. Effective for sales of meals and rentals of rooms on and after 10/1/97.

The penalty for removing, covering or defacing a notice posted by the Commissioner, informing the public that the operation has no meals and rooms tax license or that the license has been revoked or suspended, is increased from \$100 to \$500. Act 50. Effective 6/26/97.

The time for appealing a commissioner's determination in a contested case is 30 days after the decision (a change from 30 days from notice of the decision). Act 50. Effective 6/26/97.

MISCELLANEOUS

A 5 percent tax is imposed on expenditures in excess of \$2,500 of lobbyists and employers of lobbyists. The tax is paid to the Secretary of State at the time lobbyist disclosure reports are filed with the Secretary under 2 V.S.A. § 264.

The Legislature fully funded the second phase of the Department's acquisition and development of a new integrated computer system which will replace its antiquated mainframe system. This appropriation will fund the conversion of the trust taxes to the new environment and complete the forms imaging and scanning portion of the project. All the hardware and software necessary to move the processing of those taxes from the old mainframe system to the new integrated system has been acquired.

The Department will conduct a tax expenditure study of the personal income, corporate income, meals and rooms and sales and use taxes. A report will be presented to the House Ways and Means and Commerce Committees, Senate Finance Committee, House and Senate Appropriations Committees, and the Joint Fiscal Committee of the General Assembly by December 15, 1997. Act 50.

The Department will conduct or contract for a study of the feasibility of a gross receipts tax, general excise tax or other form of business excise tax in the state. A report is to be submitted to the General Assembly no later than November 15, 1998. Act 60.

To be in good standing for purposes of obtaining a trade or business license, a person must be current with respect to both tax payments and return filings. Act 50. Effective 6/26/97.

Insurance companies writing certain policies will continue to be assessed sums for the expenses of the Vermont Fire Training Council. Act 59 (sunset repealed).

MOTOR VEHICLE PURCHASE AND USE TAX

The rate shall remain at 5 percent until August 1, 1997 when it increased to 6%. Act 60.

MUNICIPAL PROPERTY TAXES

The filing fee for appeals to the State Appraiser of municipal property tax assessments is increased from \$15 to \$30. The fee will be returned if the appraised value of the taxpayer's property is reduced by more than 20 percent. The requisite reduction was formerly 10 percent. Act 59. Effective 6/30/97.

PERSONAL INCOME TAX

Income tax returns for tax year 1998 will have a "checkoff" for donations to the Vermont campaign fund. Act 64. Also beginning in 1998 is the checkoff enacted last year for donations to the Children's Trust Fund. 1995, No. 164 (Adj. Sess.).

The first \$1,500 of National Guard pay received by members who were enlisted for the full year, had an adjusted gross income of less than \$47,000

in the previous year and attended requisite training assemblies is exempt. Act 50. Effective for tax years beginning on and after 1/1/97.

The exemption for income received under the armed forces education loan repayment program is continued. Act 50.

Income from intangibles is deemed to be sourced in the state of a taxpayer's domicile. The domicile state may tax the income and Vermont will give the taxpayer a credit for tax paid on that income to the other state (but only if that state provides a similar credit to its residents for income sourced to and taxed by Vermont). This implements an agreement among 11 northeast states and the District of Columbia. Act 50. Effective 6/26/97.

Personal liability for unremitted income tax withholding is extended to officers and agents of business entities such as partnerships and limited liability companies. Former law applied with respect to corporations only. Act 50. Effective 6/26/97.

When a nonresident owner of Vermont real estate sells that property, the buyer must withhold a portion of the sale price and remit it to the Department to ensure that the income tax on the nonresident seller's income is paid. The definition of "nonresident" now includes limited liability companies, the controlling interests of which are held by nonresidents. A nonresident seller may elect to report the entire gain from an installment sale in the year of sale regardless of federal treatment. Under this option, the seller would pay tax at 6% of the gain, and would not need to file successive returns reporting small amounts of tax. Act 50. Effective 6/26/97.

It is clarified that partnerships and limited liability companies are required to make mandatory payments of income tax on behalf on nonresident partners and members only. The word "nonresident" was inadvertently omitted when this legislation was enacted last year. Act 50.

Certain partnerships and limited liability companies which operate affordable housing projects are excepted from the requirement (enacted last year) to make estimated income tax payments on behalf of partners or members. The nonresident partners and members are still liable for income tax and the entity must file information with the Commissioner to enhance compliance. Act 50. Effective 6/26/97.

Limited liability companies with only one member shall be treated as the same type of taxable entity for Vermont tax as for federal tax. Act 50. Effective 6/26/97.

PROPERTY TRANSFER TAX

The first \$100,000 in value of property with respect to which a Vermont Home Mortgage Association guarantee fee is paid is exempt from property transfer tax. The remaining value, if any, is taxed at one and one quarter percent. Act 50. Effective 6/26/97; repealed on 7/1/00.

Codifies Department practice of exempting transfers to children's spouses as well as children. Act 50. Effective 6/26/97.

Allows limited liability companies the same property tax exemption as partnerships and corporations upon formation and upon complete dissolution when no gain is recognized at the federal level. Act 50. Effective 6/26/97.

The first \$100,000 in value of property transferred to a housing cooperative organized under chapter 7 of title 11 whose sole purpose is to provide principal residences for all of its members or shareholders or to an affordable housing cooperative organized under chapter 14 of title 11, of property to be used as the principal residence of a member or shareholder shall be taxed at one-half of one percent and the value in excess of \$100,000 shall be taxed at one and one quarter percent. Act 50. Effective 7/1/93 (refunds must be filed by 4/15/98).

If transferred property will be the homestead of the purchaser the return must include a Declaration of Homestead and the clerk must submit a copy of the return to the Commissioner within three business days of its filing. Act 60. Effective 1/1/99 (The homestead declaration is an essential component of the Homestead Property Tax Income Sensitivity Adjustment enacted as part of the education financing bill).

SALES AND USE TAX

The sales and use tax rate remains at 5 percent until further amended by the Legislature. Act 60. Effective 6/26/97.

Sales tax exemptions were enacted for sales of building materials within any three consecutive calendar years in excess of one million dollars in purchase value which are: (1) used in the construction or expansion of facilities which are used exclusively, except for isolated or occasional uses, for the manufacture of tangible personal property; or (2) incorporated into a downtown redevelopment project as defined by rule by the Commissioner. Act 60. Effective for sales on and after 7/1/97.

The Commissioner may compel the filing of sales and use tax returns and if they are not filed may petition in superior court for filing of these returns. Act 50. Effective 6/26/97.

A sales tax exemption is granted for charitable organizations which sell fresh cut flowers in a once-a-year sale of seven days or less. Act 50. Effective 6/26/97.

The penalty for removing, covering or defacing a notice posted by the Commissioner, informing the public that the operation has no sales and use tax license or that the license has been revoked or suspended, is increased from \$100 to \$500. Act 50. Effective 6/26/97.

Tracked vehicles will no longer be registered by the Department of Motor Vehicles. They are subject to sales and use tax, but the tax is capped at \$900. H.539. Effective 6/26/97.

All-terrain vehicles (ATVs) will no longer be registered and taxed as motor vehicles by the Department of Motor Vehicles. ATVs are now subject to the sales and use tax instead of the motor vehicle purchase and use tax. Act 55. Effective 6/26/97.

TELECOMMUNICATIONS TAX

Sales of telecommunication services provided to a Vermont service address are subject to sales tax under Title 32 at the rate of 4.36 percent. A "Vermont service address" is the location in Vermont of communication services equipment from which the telecommunications services are originated or at which communications services are received by a purchaser. In the event this may not be a defined location, as in the case of mobile telephone service, maritime systems, air-to-ground systems and the like, Vermont service address shall mean the location in Vermont of a taxpayer's primary use of the communication services equipment as defined by telephone number authorization code, or location in this state where bills are sent. Wholesale sales of telecommunication services and sales of coin-operated telecommunication services are exempt. There is a \$20 reduction per month per residential line and no purchaser or user will be subject to telecommunications tax in excess of \$10,000 in any one calendar year. Refunds of payment in excess of that amount must be applied for on or after January 1 for the prior calendar year. Act 60. Effective as to services that are provided on or after 9/1/97 and are billed in the regular course of the provider's business on or after 10/1/97.